



Financial Statements of

DIRECTWEST PUBLISHING PARTNERSHIP

December 31, 1999

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AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of DirectWest Publishing Partnership as at December 31, 1999, and the statements of operations, partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the partnership as at December 31, 1999, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
May 26, 2000

**Deloitte Touche
Touche**

DirectWest Publishing Partnership

STATEMENT OF FINANCIAL POSITION

As at December 31

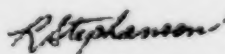
	1999	Unaudited 1998
	(Thousands of dollars)	
ASSETS		
Current		
Cash	\$ —	\$ 2,510
Accounts receivable	3,690	2,727
Inventory	129	73
Prepaid publishing costs	5,628	5,764
Prepaid expenses	36	150
Total current assets	9,483	11,224
Capital assets [note 3]	3,765	2,116
Goodwill [note 4]	414	622
	\$13,662	\$13,962
LIABILITIES AND PARTNERS' EQUITY		
Current		
Bank indebtedness	\$ 112	\$ —
Notes payable to SaskTel [note 5]	427	—
Accounts payable	2,192	2,570
Partners' withdrawals payable	636	—
Deferred revenue	2,354	2,272
Total current liabilities	5,721	4,842
Partners' equity	7,941	9,120
	\$13,662	\$13,962

See accompanying notes

On behalf of the Partners:



3364381 Canada Ltd.



3339807 Canada Ltd.

DirectWest Publishing Partnership**STATEMENT OF OPERATIONS**

Year ended December 31

	1999	Unaudited 1998
	<i>(Thousands of dollars)</i>	
Gross revenue	\$30,739	\$29,354
Cost of revenue	8,350	8,000
Gross profit	22,389	21,354
Operating expenses	20,853	19,874
Income from operations	1,536	1,480
Interest revenue	61	62
Net income	\$ 1,597	\$ 1,542

See accompanying notes

DirectWest Publishing Partnership

STATEMENT OF PARTNERS' EQUITY

Year ended December 31

	1999	Unaudited 1998
	<i>(Thousands of dollars)</i>	
Balance, beginning of year	\$ 9,120	\$ 8,778
Partners' withdrawals	(2,776)	(1,200)
	6,344	7,578
Net income	1,597	1,542
Balance, end of year	\$ 7,941	\$ 9,120

See accompanying notes

DirectWest Publishing Partnership

STATEMENT OF CASH FLOWS

Year ended December 31

	1999	Unaudited 1998
	<i>(Thousands of dollars)</i>	
OPERATING ACTIVITIES		
Net income	\$ 1,597	\$ 1,542
Charges not involving cash		
Depreciation and amortization <i>[note 3 and 4]</i>	1,251	1,231
	2,848	2,773
Net change in non-cash working capital balances	(617)	720
Cash provided by operating activities	2,231	3,493
INVESTING ACTIVITIES		
Capital expenditures	(2,712)	(1,584)
Cash used in investing activities	(2,712)	(1,584)
FINANCING ACTIVITIES		
Partners' withdrawals	(2,141)	(1,200)
Cash used in financing activities	(2,141)	(1,200)
(Decrease) increase in cash during the year	(2,622)	709
Cash and cash equivalents, beginning of year	2,510	1,801
Cash and cash equivalents, end of year	\$ (112)	\$ 2,510
Comprised of:		
Cash	\$ —	\$ 2,510
Bank indebtedness	(112)	—
	\$ (112)	\$ 2,510

See accompanying notes

DirectWest Publishing Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

1. ORGANIZATION

DirectWest Publishing Partnership (the Partnership) markets and supplies Print and Internet advertising and marketing solutions for Saskatchewan businesses. The Partnership's main product lines include the SaskTel telephone directories, as well as an Internet portal at mysask.com.

As the Partnership is unincorporated, no provision has been made in the accounts for partners' income taxes. These statements are of the Partnership only and do not include any other assets, liabilities, revenues and expenses of the partners.

Substantially all of the Partnership's revenues are generated pursuant to a Publishing Agreement with SaskTel. Within this agreement the Partnership has the exclusive right until December 31, 2001 to publish, print and distribute SaskTel's printed telephone directories and the right to identify, develop and implement, and sell Enhanced Directory Products.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue from the sale of Print and Internet advertising is recognized over the term of the contract.

Prepaid publishing costs

The Partnership defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries, salaries of customer service staff, and salaries of sales staff. These costs are charged to income over the life of the related publication. Indirect costs are expensed as incurred.

Capital assets

Capital assets are initially recorded at cost. Normal repair and maintenance expenditures are expensed as incurred.

Depreciation is provided by the straight-line method over the following periods:

Amdocs software	7 years
Software	1 - 2 years
Office furniture and equipment	10 years
Leasehold improvements	Lease term (7 years)
Computer equipment	2 - 3 years

One-half year's depreciation is claimed in the year of acquisition. Gain or loss on the disposal of individual assets is recognized in income in the year of disposal.

DirectWest Publishing Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Upon application of push-down accounting on August 12, 1997, the underlying fair value of net identifiable assets of DirectWest Publishing Partnership was determined and resulted in an increase to partners' equity of \$3.9 million. Goodwill was recognized as the excess of the purchase price over this amount. Goodwill is amortized on a straight-line basis until December 31, 2001. Periodically, the Partnership reviews its goodwill account to assess whether the value has been impaired based upon projected, undiscounted net cash flows of the related operations.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

3. CAPITAL ASSETS

	1999		Unaudited 1998	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
	<i>(Thousands of dollars)</i>			
Amdocs software	\$ 5,022	\$ 2,745	\$ 3,170	\$ 2,440
Software	1,223	911	770	584
Office furniture and equipment	954	411	763	342
Leasehold improvements	655	400	591	337
Computer equipment	1,623	1,245	1,473	948
	9,477	5,712	6,767	4,651
Accumulated depreciation	5,712		4,651	
Net book value	\$ 3,765		\$ 2,116	

Depreciation expense relative to capital assets is included in the statement of operations as follows:

	1999	Unaudited 1998
	<i>(Thousands of dollars)</i>	
Cost of revenue	\$ 304	\$ 304
Operating expenses	759	720
	\$ 1,063	\$ 1,024

DirectWest Publishing Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

4. GOODWILL

	1999	Unaudited 1998
	<i>(Thousands of dollars)</i>	
Cost	\$ 915	\$ 915
Accumulated amortization	501	293
Net book value	\$ 414	\$ 622

Amortization expense \$207,000 for 1999 (\$207,000 for 1998) is included in the statement of operations as operating expense.

5. NOTES PAYABLE TO SASKTEL

Certain intercompany transactions with SaskTel are settled through intercompany notes rather than exchanging cash. Interest is applied to the balance of the note based on short-term investment rates or short-term borrowing rates available to SaskTel through CIBC. The amount payable to SaskTel of \$427,000 represents the net amount of notes issued to December 31, 1999.

DirectWest Publishing Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

6. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end, are as follows:

	1999 (Thousands of dollars)	Unaudited 1998
Sales	\$ 2,536	\$ 2,461
Purchases of goods and services	\$11,791	\$11,426
Accounts receivable	\$ 3,559	\$ 2,664
Accounts payable	\$ 106	\$ 814

In addition, the Partnership pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

7. LEASE COMMITMENTS

The Partnership is committed under operating leases for premises for the following payments:

	(Thousands of dollars)
2000	\$ 152
2001	120
2002	114
2003	114
2004	114
Thereafter	344
	\$ 958

DirectWest Publishing Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

8. NEWSPRINT COMMITMENT

The Partnership has contracted to purchase approximately \$1.2 million of newsprint during 2000.

9. YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

10. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

11. SUBSEQUENT EVENTS

On March 28, 2000, DirectWest purchased the directory assets of Warren's Farm and Ranch Directory Ltd. (WF&RD Ltd.). Based in Bethune, Saskatchewan, WF&RD Ltd.'s main business is publishing an agricultural directory and catalogue, which is distributed throughout Western Canada and the northern United States. The future operation of these products will be reported within the DirectWest Publishing Partnership accounts.